

Message Text

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TAGS: EIND, PO

SUBJECT: ITT PROBLEMS IN PORTUGAL

REF: LISBON A-171

1. HERBERT STEINKE, ASSOCIATE GENERAL COUNSEL OF ITT AT NEW YORK AND SAMUEL DE PALMA, NOW DIRECTOR OF INTERNATIONAL ANALYSIS UNIT OF ITT NEW YORK, AND TWO ITT WASHINGTON REPRESENTATIVES, CALLED ON DEPARTMENT ON AUGUST 20 TO EXPLAIN THE CRITICAL SITUATION NOW CONFRONTING ITT IN PORTUGAL. COMPANY INVESTMENTS IN OLIVA PIPE AND TUBING MANUFACTURING AND RABOR MOTORS AND PUMP MANUFACTURING (BOTH IN THE NORTH), STANDARD ELECTRIC TELEPHONE AND SEMI-CONDUCTOR MANUFACTURING, THE NEW SHERATON HOTEL IN LISBON, AND TELEPHONE DIRECTORY PRODUCTION, ARE CARRIED ON ITT BOOKS AS AN AGGREGATE INVESTMENT OF DOLLARS 55 MILLION BUT WORTH 100 MILLION, PROBABLY THE LARGEST SINGLE U.S. INVEST-
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MENT IN PORTUGAL.

2. ITT FINDS THAT ALL OF ITS INVESTMENTS SINCE 1974 HAVE BEEN CAUGHT IN AN ECONOMIC SQUEEZE, CONFRONTED BY IMPOSED

WAGE INCREASES, PRICE FREEZES, DRYING UP OF LINES OF CREDIT AT THE NATIONALIZED BANKS AND A DECLINING MARKET FOR ITS PRODUCTS, ESPECIALLY THE DOMESTIC CONSUMER MARKET. ALTHOUGH ITT HAD INVESTED 33 MILLION IN THESE ACTIVITIES IN PORTUGAL BETWEEN 1967 AND 1973, AND TOOK OUT ONLY 4.4 MILLION IN DIVIDENDS DURING THAT PERIOD, AND NOW EMPLOYS A TOTAL OF 7,000 PEOPLE, IT HAS SUFFERED LOSSES OF 19 MILLION IN THE TWO MANUFACTURING ENTERPRISES IN THE NORTH THIS YEAR AND EXPECTS A NEGATIVE CASH FLOW IN THE OTHER INVESTMENTS AMOUNTING TO 20 MILLION DURING THE LAST FIVE MONTHS OF THE YEAR. SINCE IT SUBMITTED A PROTOCOL TO THE GOP LAST MAY 7 CALLING FOR GOVERNMENT COOPERATION AND FINANCIAL SUPPORT, ITT HAS PUT DOLLARS 3 MILLION INTO THE ENTERPRISES TO COVER CURRENT EXPENSES, INCLUDING PAYROLL, BUT HAS RECEIVED NOTHING FROM THE PORTUGUESE BEYOND A SHORT-TERM BANK LOAN OF HALF MILLION DOLLARS. MEANWHILE WORKERS COMMITTEES IN ALL THE ENTERPRISES HAVE PURGED KEY MANAGEMENT EMPLOYEES AND PREVENTED THE HIRING OF OTHERS, SO THAT ITT NOW FEELS THAT IT HAS LOST EFFECTIVE MANAGEMENT CONTROL OF ALL ITS PORTUGUESE INVESTMENTS. WITH DECLINING BUSINESS ITT HAS AGREED ON ARBITRATION PROCEDURES TO BRING ABOUT PAYROLL DEDUCTIONS BUT THIS HAS NEVER BEEN IMPLEMENTED ON THE PORTUGUESE SIDE, WITH THE RESULT THAT REDUNDANT PERSONNEL REMAIN AND UNSOLD INVENTORIES ARE INCREASING.

3. ITT IS AT THE POINT OF DECIDING AGAINST BRINGING IN ANY FURTHER FUNDS TO MEET PAYROLL OBLIGATIONS FOR AUGUST WHICH FALL DUE NEXT WEEK. IT WOULD THEN FACE POSSIBLE PORTUGUESE CHARGES OF ECONOMIC SABOTAGE AND COULD BE CONFRONTED WITH A GOVERNMENT INTERVENOR, ALTHOUGH IT IS NOT AWARE THAT ANY HAVE YET BEEN NAMED IN OTHER FIRMS. ONE BANK HAS SAID IT IS STUDYING THE QUESTION OF A LONG-TERM LOAN, IN RESPONSE TO THE MAY 7 PROPOSAL, BUT NO ACTION APPEARS LIKELY THIS MONTH.

4. ITT THEREFORE WISHED TO ACQUAINT THE DEPARTMENT WITH LIMITED OFFICIAL USE
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ITS VERY LIMITED OPTIONS. STEINKE INDICATED THAT WHILE THE PRINCIPAL REPRESENTATIVE OF ITT IN PORTUGAL, FERNANDEZ, THE DIRECTOR OF STANDARD ELECTRIC, IS TRYING TO COPE WITH THE SITUATION, A TOP MANAGEMENT DECISION WILL PROBABLY BE TAKEN VERY SOON ON HOW TO PROCEED. HE ASKED FOR OUR ASSESSMENT OF THE SITUATION.

5. DEPARTMENT OFFICER OUTLINED THE POLITICAL SITUATION AND THE UNCERTAINTY ABOUT THE FUTURE COURSE OF POLITICAL DEVELOPMENTS AND PUBLIC POLICY TOWARD IMPORTANT PRIVATE INVESTMENTS. THE PATTERN OF BEHAVIOR TO DATE, INCLUDING OUR EXPERIENCE WITH THE TORRINGTON CASE, SUGGESTS THAT THE

GOP WOULD PREFER TO SEE ITT AND ITS INVESTMENTS REMAIN AND FLOURISH, ALTHOUGH THE BEHAVIOR OF LOCAL WORKERS COMMITTEES OBVIOUSLY RUNS COUNTER TO THIS PRESUMABLY OFFICIAL DOCTRINE. IF ITT TOP MANAGEMENT WERE TO CONFRONT SENIOR PORTUGUESE AUTHORITIES WITH ITS CLEAR DILEMMA, IT IS POSSIBLE THAT LISBON WOULD INTERVENE OR TRY TO INTERVENE, IN A MANNER HELPFUL TO THE COMPANY IN REGAINING MANAGEMENT OF THE ENTERPRISES AS WELL AS OFFER SOME FINANCIAL ASSISTANCE. WHILE THIS IS PROBLEMATICAL, DEPARTMENT OFFICERS SUGGESTED THAT IN VIEW OF THE RELATIVE MAGNITUDE AND IMPORTANCE OF THE ITT EQUITY IN PORTUGAL, AND THE DESIRABILITY OF NOT CONTRIBUTING TO CURRENT ALLEGATIONS OF A WESTERN ECONOMIC BOYCOTT, THE COMPANY SHOULD NOT ARRIVE AT ANY CRITICAL DECISION BEFORE IT HAD CONSULTED AMBASSADOR CARLUCCI AND BENEFITTED FROM HIS REACTION AND SUGGESTIONS.

6. STEINKE INDICATED THAT MAURICE VALENTE, PRESIDENT OF ITT EUROPE AT BRUSSELS, WHO WAS LAST IN LISBON IN EARLY JULY, AFTER WHICH HE WROTE TO OKUN DESCRIBING THE SITUATION AT THAT TIME, MAY BE ASKED TO RETURN TO LISBON TO DISCUSS THE SITUATION WITH YOU. ROBINSON

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